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SECRET**THE SOVIET WORLD**

The Soviet Orbit is continuing its attempts to lure the Western European nations away from their alliance with the United States.

Several Eastern European Satellites have invited British Labor Party, trade union, or business delegations to make visits, and the British Parliament has accepted an invitation for a delegation to visit Moscow in the fall. In Moscow and Peiping, the Communists have received the current British Labor Party delegations in courtly fashion, attempting to prove that the red carpet has replaced the iron curtain.

Peiping used the occasion to develop the propaganda themes of China's great-power status and its interest in peaceful co-existence with all countries. Peiping emphasized the prospects for increased Sino-British trade, which it claims is now limited only by the American-sponsored embargo and the American-directed seizure of British ships by the "Chiang Kai-shek pirates."

Moscow's trade program continues to support its strategy of courting Western European countries. The USSR is still exporting precious metals on a large scale in order to finance its expanding imports from the West. These exports, together with increased deliveries of such commodities as petroleum products, manganese ore, and chrome ore, more than offset the sharp curtailment in traditional Soviet grain exports.

Soviet gold sales, which were accelerated to a level exceeding \$100,000,000 in the last quarter of 1953, have continued high in 1954. The value of shipments to the West in the first four months of this year is estimated at from \$60,000,000 to \$100,000,000. In addition, negotiations have been reported for the sale of a further \$150,000,000 worth of gold. As in the past, the major sales are being made in the London market, with lesser quantities being sold in France. Recently, the USSR also delivered \$5,000,000 worth of gold to Finland as a partial payment on its trade deficit with that country.

As for the Soviet economic program aimed at the under-developed countries, a Soviet invitation issued at last February's meeting of the UN Economic Commission for Asia and the Far East for delegates from Asian countries to visit the USSR to observe industrial and economic developments was accepted by India, Pakistan, Burma, Afghanistan, Indonesia, and Japan.

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The Soviet Union recently invited all Latin American members of the UN Economic Commission for Latin America to make a one-month visit to the Soviet Union in September. It has also made several approaches to Asian countries offering technical assistance on a bilateral basis.

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SECRET**PROSPECTS DIM FOR DEVELOPING STRONG
GOVERNMENT IN FREE VIETNAM**

Prospects for developing a strong non-Communist government in south Vietnam are not favorable. In addition to Communist subversive activity, the present Vietnamese government must contend with unfriendly French authorities who regard its outspoken nationalism as inimical to their interests.

Premier Ngo Dinh Diem's government, like its predecessors, is weak and inexperienced and Bao Dai's public announcement that he intends to return soon to Vietnam and to lend Diem his "full support" is at best a dubious asset for non-Communist Vietnam. Diem's government would almost certainly lose to the Viet Minh in any nationwide election in the near future. Diem is rigid in his thinking and ill-informed on many matters of practical administration. Presumably on moral grounds, he has not yet taken into his government representatives of the Cao Dai and other war lord sects in southern Vietnam.

Since Geneva, the Viet Minh has sought to undercut Vietnamese authority in the south by circulating "election registers" which virtually force the inhabitants to declare themselves publicly for Ho Chi Minh. The Viet Minh has also organized demonstrations which have proved politically embarrassing to the Vietnamese authorities. A major form of Viet Minh political action has been to discourage northern Vietnamese from seeking refuge in the south. The Viet Minh seems to have a genuine fear that such an exodus would cast some reflection on its popularity.

Despite the weakness of Diem's government, American officials in Vietnam believe it has a greater potential for winning wide popular support than any available successor. Its leadership is irreproachably nationalist and unprecedentedly honest. Its anti-Communism is genuine, not opportunistic, and Premier Diem enjoys wide personal respect for his integrity.

Whether this government can cope with the enormous problems thrust on it by the Geneva settlement, however, remains uncertain. Its task has been considerably complicated by the strenuous efforts of the French to discredit Diem with a view to installing a more pliable government built around a group of Cochinchinese opportunists. The heavy emphasis French officials, both in Paris and Saigon, have placed during the past few weeks on the present government's ineptitude suggests they want to convince American officials of Diem's incapacity before attempting any overt move against him.

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More recently, French opposition to Diem appears to have taken a subtler form, perhaps as a result of Bao Dai's intention to return to Vietnam. The legality of any change in the Vietnam government is at least nominally subject to Bao Dai's approval, and the current French policy is to prevent his return to Vietnam, where he may be less subject to French control.

The French have taken steps to warn Diem that his most dangerous enemy is the Bao Dai-controlled police force, and to persuade him to "broaden" his government. The French aim appears to be to embroil Diem with Bao Dai while bringing into cabinet positions, and perhaps the premiership, representatives of the Cochinchina separatist faction.

The French clearly fear that Diem's uncompromising nationalism may lead him to take measures harmful to French economic and bureaucratic interests. Any authentic nationalist government is certain sooner or later to levy heavy if not confiscatory taxes on French businesses and greatly to diminish the role of the French Indochina bureaucracy.

The French may also fear that Diem's belligerent attitude toward the Viet Minh and his avowed irredentism with respect to northern Vietnam might at some time embroil their expeditionary corps in further hostilities with the Viet Minh.

Finally, in the absence of a clear-cut policy to the contrary, there is a strong inclination on the part of many French officials and private citizens to pursue a policy of business as usual with the Viet Minh--a policy which could hardly be reconciled with a strong nationalist government in the south.

The French policy of resisting nationalism and encouraging the seizure of power by an unpopular, Francophile clique in Cochinchina will greatly enhance the power of the Viet Minh to develop political strength in the south. The French apparently hope to maintain some sort of special status in Vietnam over the long run, notwithstanding a Viet Minh takeover of the entire country. This French status might take the form of permission to continue to operate French cultural, scientific, and economic establishments and to maintain at least nominally Vietnam's association with the French Union.

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SECRET**THE FRENCH COMMUNIST PARTY AND MENDES-FRANCE**

The French Communists, who at their national congress in June publicly admitted some weakening of party strength, consistently supported Mendes-France for the first two months of his premiership in the evident belief that he offered the best chance of reorienting French foreign policy. The "hard line" that had led to the anti-Ridgway riots in 1952 was re-adopted at the congress, however, and will probably be emphasized as the premier's public tactic favoring German rearmament forces the party to recognize the ineffectiveness of its conciliatory tactics for blocking EDC.

At the June congress, the first in four years, acting party chief Duclos openly admitted a drop in membership and expressed particular alarm over the decline in members from the working class. Membership is now estimated at 400,000, or only about half that claimed in 1950; but the party continues to attract about a quarter of the French electorate.

By again emphasizing the "hard line" of violent political demonstrations, the congress tacitly admitted that appeals for unity of action with other parties had not succeeded in blocking EDC. The surprise investiture of Mendes-France ten days after the congress ended, however, apparently encouraged new efforts at parliamentary co-operation. Following Mendes-France's abortive investiture bid in June 1953, Communist spokesmen had indicated that they would have backed him had he proposed an immediate end to the Indochina war, and in October 1953 acting party chief Jacques Duclos pledged support for any government opposing the EDC treaty.

The Communists' general line on Mendes-France has been that he represents a complete break with previous French "subordination" to American foreign policy. Although he has rejected their support and strongly denounced the party, their press eschewed direct criticism of the premier until mid-August even on his decision to seek authority to send conscripts to Indochina if the Geneva negotiations had failed.

Moreover, despite the national congress dictum, the party has continued to avoid mass action and other demonstrations which might provoke government interference. It quietly accepted the government's refusal to renew the passport of Benoit Frachon, secretary general of the Communist-dominated

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General Labor Confederation, and it raised only mild objections to the ban on the traditional party-sponsored Bastille Day parade.

Although the Communist bloc in the National Assembly abstained in the 10 August vote granting the premier special powers to carry out his economic program, Communist propaganda and action since the Geneva conference point up the apparent desire to back Mendes-France at least until the French government takes positive steps to permit German rearmament.

The Communists have soft-pedaled demands for economic reform, playing down nationalization, and stressing only the need for an improved standard of living. Parliamentary leader Duclos explained their abstention from the 10 August vote on the ground that it represented an expression of confidence in the whole policy of the government, which might include steps toward EDC ratification. On the same day, the Communists did vote confidence in the premier's Tunisian reform program, presumably interpreting this as a further step toward a re-orientation of French foreign policy. However, Mendes-France's public statement on 14 August that France must accept German rearmament provoked a direct attack on him, with the charge that he is pushing EDC through in an essentially unchanged form.

Even if the assembly rejects EDC, the Communists will now probably continue their attacks on Mendes-France, particularly since they evidently have no intention of aiding him to put through a program leading to a rehabilitation of the French economy.

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SECRET**DISRUPTION TO SHIPPING IN THE CHINA TRADE
MAJOR PROBLEM TO PEIPING**

The disruption to shipping in the China trade caused by the Nationalist blockade has been financially costly to the Orbit and may force Peiping to take positive action. Since the seizure of the Russian tanker Tuapse on 23 June, all ships with industrial cargo from Eastern Europe have offloaded in South China for shipment north by rail, due to fear of the Chinese Nationalist navy around Formosa.

The recent floods have washed out portions of both north-south rail lines with the result that the part of this route inside China is now closed. In effect, the Nationalists have deprived North China of industrial goods from Eastern Europe, which are usually seaborne. The extra shipping costs which accrued to China, the USSR and Poland during the past two months are probably equivalent to over \$2,000,000.

Besides these major and growing economic considerations, Peiping and the USSR have lost face as a result of the detention of the Tuapse and the aircraft incidents near Hainan Island which stemmed from Communist efforts to provide air-sea escorts in the South China Sea. Moscow apparently has withdrawn its ships from the Europe-China run, at least temporarily. No Russian ship has begun to load in Europe for China since the Tuapse seizure, whereas during the first seven months of 1954, Soviet ships carried 30 percent of Chinese seaborne imports from Eastern Europe.

These factors may soon compel the Communists to attempt to provide escort around Formosa, or to route shipping far enough east of Formosa to be safe, or else to start carrying a large part of Sino-Satellite trade on the trans-Siberian railroad, a costly alternative.

The continued failure to route ships bound for North China east of the Philippines and outside the estimated 500-mile range of the Nationalist navy may reflect uncertainty as to the real strength of the Nationalists. It may, however, have more ominous implications--namely, that Peiping and Moscow are unwilling to have commercial shipping in an area where military operations may be contemplated.

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Chou En-lai, in his report on foreign affairs made at the 33rd session of the Central People's Government Council held on 11 August, admitted the existence of a blockade of the East China coast when he stated that the United States had given support "to the blockade of our coast by the traitorous Chiang Kai-shek group." Prior to this time the disruption of shipping was referred to merely as piracy and harassment.

Since 23 June, delays and rerouting of Soviet vessels alone are estimated to have cost the USSR \$500,000. Polish ships are also subject to these delays. In addition to the extra costs of shipping goods overland, export cargoes have not always been available for ships in South China, forcing them to return to Europe empty. Total shipping costs to the bloc have clearly amounted to millions of dollars.

Whampoa, South China's only port, which has dock facilities for no more than two ocean-going vessels at one time, has been jammed for weeks. Two Russian tankers which were in the South China Sea in June were subsequently diverted to Whampoa, and one is still there. Another tanker, the Polish Wspolpraca, recently arrived at Whampoa. Due to limited fuel storage capacity there, it is doubtful that tankers can be handled at a faster rate than one every three or four weeks.

In addition to these three tankers, ten cargo ships with 59,000 tons of dry cargo have arrived at Whampoa since 10 July, and four more Soviet bloc ships are now in Far East waters heading for the port.

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SECRET**END OF OVERT SOVIET CONTROLS IN EAST GERMANY MAY BE NEAR**

The abolition on 6 August of all Soviet occupation legislation on political, economic and cultural matters in East Germany is the most dramatic step by the USSR to enhance the prestige and ostensible freedom of the East German government since the granting of sovereignty on 26 March. The principal Soviet motives are to promote East Germany as a partner in international negotiations, to stimulate French-West German differences, and thus to delay EDC.

Major features of the grant of sovereignty to the German Democratic Republic are the actual reduction of the authority of the Soviet high commission provided in the 26 March protocol and the withdrawal of its branch offices in the districts of East Germany and in Berlin announced on 19 June. On 7 August the high commission vacated its quarters in the Berlin suburb of Karlshorst and moved to the Soviet embassy, apparently in order to give a diplomatic facade to its future activities.

The East German regime has been permitted to take the initiative in a trade offensive in the West and is attempting to establish official trade delegations in Western countries as a first step toward recognition. It has also been given authority over the movements in East Germany of members of the Western military missions accredited to the Allied Control Authority in Berlin. This does not offset the United States, Britain, and France. In addition, the control of the East German borders, including customs, has been transferred from Soviet authorities to the East German government.

These measures have not reduced the real controls by which the USSR ensures the obedience of a puppet regime. The Socialist Unity Party (SED) has succeeded to much of the overt authority formerly exercised by the Soviet occupation administration. Additional control measures are provided by substantial Soviet secret police elements and the 400,000-man occupation army, whose 22 divisions are more than enough to quell a popular uprising. The Soviet high commissioner still has sweeping powers under four-power legislation which authorizes him to assume supreme control of the country at any time. Some economic activities are subject to the broad control of the Moscow-dominated Council of Mutual Economic Assistance. Moreover, the Soviet Union will continue to exercise close direction over East German exports, particularly those that go to the USSR on preferential terms.

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In strengthening the German Democratic Republic's claim to sovereignty, the USSR is attempting to promote the regime as a worthy participant in all-German and international conferences and in the Molotov security pact. The Soviet Union appears to be relying increasingly on its campaign for East-West German unity talks as a means of postponing four-power debate on a peace treaty and free elections, questions on which the Kremlin suffers from an embarrassing lack of flexibility.

A principal feature of the program to bring East and West Germans together is the easing of restrictions on travel and communications between the two parts of Germany. In addition, the East German government has urged Germans from East and West to meet for discussions of many political, economic and cultural subjects. A singular success was realized when the regime permitted the Evangelical Church congress to be held in Leipzig in July in an atmosphere of freedom not usually associated with Communist countries.

Another purpose of making ostensible grants of sovereignty at this time is to engender increasing friction between France and West Germany over the limitations on Bonn's sovereignty and any further delays or changes proposed by France in EDC.

Without surrendering any of its physical control, the Soviet Union will probably continue to make seemingly generous gestures by giving ostensibly greater freedom and authority to the East German regime. Such steps might include the abolition of the Soviet high commission, already reduced in scope, and the establishment of an East German national airline or merchant marine.

In spite of Soviet steps to make the East German regime appear to be a sovereign government, there will be little inclination in the West to grant recognition. Some countries, however, may want to deal with the regime on an official level in order to resolve problems of trade and transportation. In West Germany there has been much skepticism about these Soviet moves, and there is at the moment little enthusiasm for negotiations with the East German regime.

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SECRET**SATELLITE REACTION TO WESTERN FLOOD RELIEF OFFERS**

The Eastern European Satellites appear to be accepting Western flood relief offers primarily for political reasons, with economic considerations of secondary importance (see map, p.15). In their propaganda, East Germany and Hungary are utilizing their acceptance as evidence of their "sincere" desire to reduce international tensions. Furthermore, the Communists probably feel they can portray acceptance as a manifestation of their interest in the welfare of the people.

In the past, the Satellites have consistently refused various offers of Western aid, and the initial reaction to the 31 July approach was unfavorable. Satellite reversal of this position was probably prompted by Moscow, which considered a favorable response more in line with current Orbit tactics. East Germany, where destruction of crops and damage to industrial property was severe, had characterized the "sinister" American offer as a cover for rehabilitating the "badly torn network of agents." On 5 August, however, it reversed its attitude and accepted "President Eisenhower's generous offer," portraying its action as an expression of its "policy of furthering ... international understanding."

Hungary, with damage to grain production estimated at less than 2 percent, had initially refused a Dutch offer of 50,000 guilders (\$14,000), and had indicated it would not accept American assistance. On 7 August, it accepted the Dutch offer and on 10 August acquiesced to American aid. In both cases, it specified that it would rather receive currency than goods.

After almost three weeks of silence, Czechoslovakia announced on 16 August its willingness to accept the proffered aid. Seventy percent of the crops in Czechoslovakia's flooded regions were saved, but damage to industrial establishments is estimated at \$14,000,000. Rumania, which suffered little flood damage, declined the American offer politely. Aid was not offered to Albania, Bulgaria, and Poland.

In addition to the Western aid, East Germany, Czechoslovakia, and Hungary have received flood relief donations from the USSR amounting, at the official rate of exchange, to approximately \$90,000, \$27,000, and \$25,000 respectively. Hungary has also received some \$12,500 from Rumania, \$9,000 from Bulgaria, and an unknown amount from Poland. All these grants have been well publicized in the Orbit press.

The flood damage was probably not sufficient to cause serious setbacks to the Orbit's economic program. In most cases there was enough warning to permit the governments to mobilize military and paramilitary forces and vehicles for harvesting crops and building dikes and levees in threatened areas.

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SECRET**COMMUNIST CHINA'S LEADERS UNDER THE NEW CONSTITUTION**

Under Communist China's new draft constitution, it is probable that Mao Tse-tung and Chu Teh will receive the posts of Chairman and Vice Chairman of the Republic while Liu Shao-chi will head the powerful Standing Committee of the People's Congress and Chou En-lai the cabinet-like State Council.

The draft constitution, to be approved by the All-China People's Congress in September, appears to take into account the problems connected with the transfer of authority after the death of Mao Tse-tung. The semiretirement of Mao from active control of the government to a position of prestige with limited constitutional authority would permit the development of a successor in the position of real governmental power.

Power in Communist China, as in other Communist states, will continue to depend primarily on standing in the party rather than position in the government. The forthcoming assignment of leaders to certain government jobs, under the party-designed constitution, should serve as an indicator of party standing.

The draft constitution follows its Soviet model closely in many respects, but differs from it in creating the offices of Chairman and Vice Chairman of the Republic, for which elections will be held by the All-China People's Congress. Terms for the offices will run for four years (see chart, p. 20). The Vice Chairman assists the Chairman, assumes the Chairman's duties should he become incapacitated "for reasons of health," and succeeds to that office if it "falls vacant."

Judging from current propaganda in China, the post of Chairman of the Republic is apparently intended for Mao Tse-tung, whose ill health may compel him to reduce his role in the government. It will be a position of great prestige but will derive its real authority from the personal leadership and party standing of its holder. The major constitutional restriction on the powers of the Chairman of the Republic is the provision that his principal functions are to be carried out "in accordance with the decisions of the People's Congress or its Standing Committee."

The Standing Committee will probably be in effective control of the congress' functions as "highest organ of state power," since the congress, consisting of about 1,200 delegates, is

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likely to follow the Soviet example and do little more than approve measures submitted to its annual meetings. The present counterpart of the Standing Committee, the Central People's Government Council, is under Mao's chairmanship. Chairmanship of the Standing Committee of the People's Congress will probably therefore become the dominant position in the government, and its holder will probably be a man second only to Mao in importance.

The most likely candidate for Chairman of the Standing Committee seems to be Liu Shao-chi. Liu, currently rated second in the Chinese Communist hierarchy, would thus be in a position to inherit Mao's power. Another possibility is the present premier and foreign minister--Chou En-lai.

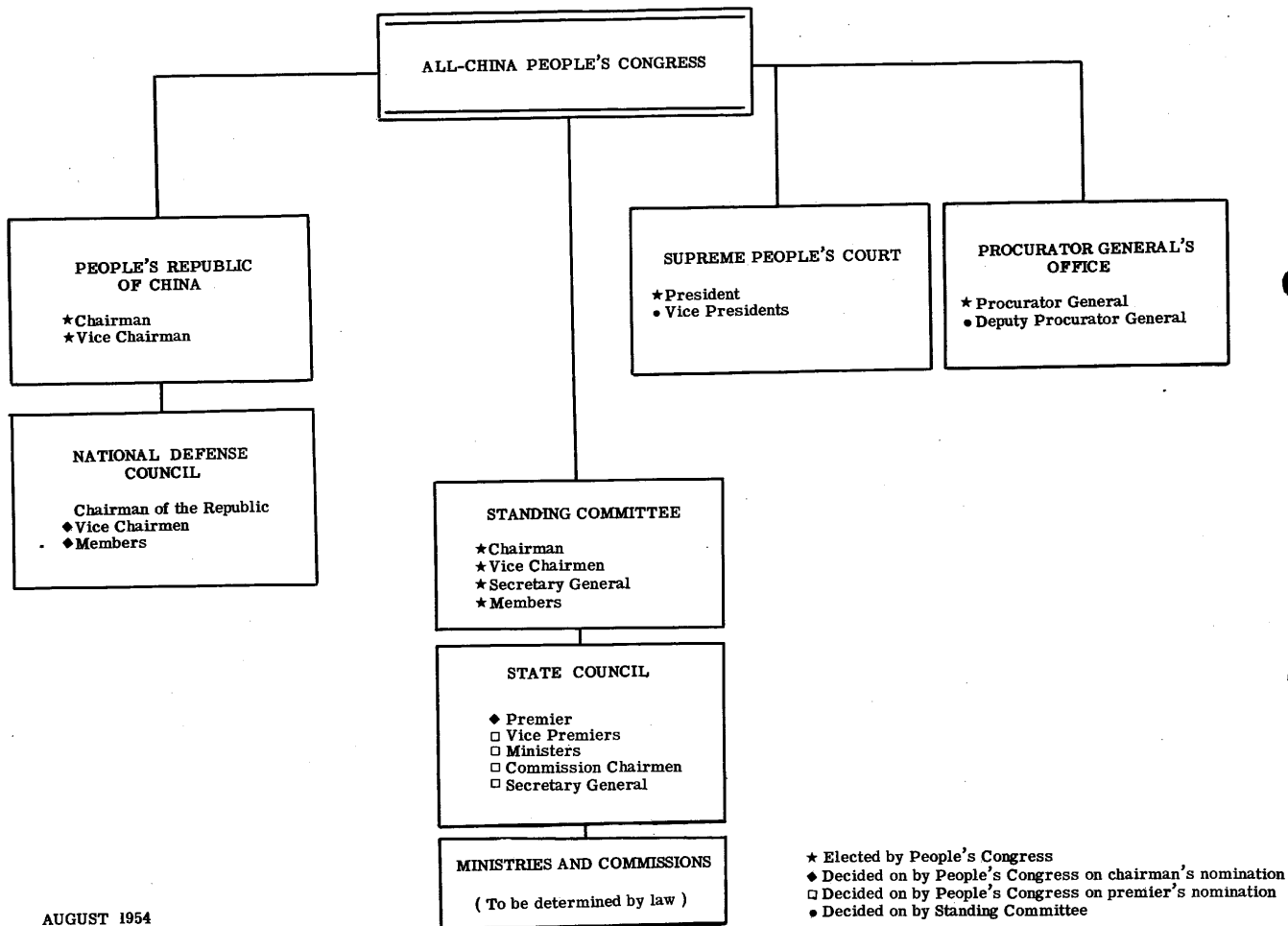
The best choice for Vice Chairman of the Republic would appear to be a popular party veteran. Since the Chairman of the Republic is commander in chief of the armed forces and chairman of the National Defense Council, he should also have a sound military background. Chu Teh, who is 68 years old and commander in chief of the armed forces, may be selected for this position in spite of his age. Choice of Chu as Vice Chairman would strengthen the supposition that the posts of Chairman and Vice Chairman of the Republic will be largely honorary.

Another locus of power under the new constitution will be the State Council, a cabinet-like body with functions similar to the present Government Administration Council. The State Council will include the premier, vice premier, ministers, and commission chairmen who are to be formally appointed by the Chairman of the Republic, subject to the decision of the People's Congress or its Standing Committee. The Chairman of the Republic, however, nominates only the premier, who in turn, nominates the other State Council members.

The State Council is under the supervision of the Standing Committee, but, through its control of day-to-day government operations, will occupy a strategic place in the administrative hierarchy. If Chou En-lai continues as premier, his increased stature in the party as a result of his recent diplomatic successes would lend authority to that office.

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PROPOSED CHINESE COMMUNIST GOVERNMENT STRUCTURE



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COMMUNIST CHINA'S GROSS NATIONAL PRODUCT MAY BE \$33 BILLION*

Peiping has recently released data which form the basis for a new estimate of \$33 billion for China's gross national product (GNP) in 1952. This finding exceeds a recent tentative American estimate of \$27 billion. Until recent years it was widely accepted that China's GNP was less than \$15 billion.

For the first time an absolute rather than a percentage figure for the output of a major segment of the economy has appeared in the Chinese Communist press. This key figure in the new analysis was an estimate of the output of the handicraft industries in 1952 and was reported in the Tientsin Ta Kung Pao on 7 May 1954 as 100 trillion yuan, or \$5 billion at the 1952 exchange rate. The article just received further stated that this figure was 13 percent of the total industrial and agricultural output, and 31 percent of the industrial output alone.

With these data it is possible to derive an absolute figure of \$38 billion for the gross agricultural and industrial output. From this total an estimate can be made of the available consumers' goods by subtracting the proportion of output used as industrial raw materials, investment goods, and export. As private investment in China is negligible, a GNP estimate can then be derived by adding estimated consumers' services and state expenditures from the budget for investment, military, and administration purposes. The resulting GNP estimate for 1952 is \$33 billion.

While this new tentative estimate is 22 percent higher than the one previously accepted, per capita GNP has risen only slightly because the recently accepted estimate of China's population increased the number of Chinese by 16 percent.

China's estimated gross national product of \$33 billion is about one fourth the Soviet and one eleventh the American GNP. China's per capita GNP of roughly \$57 is about equal to that of India but only about one quarter that of Japan. It is estimated that China by 1957 will have attained a GNP that is about 20 percent over the 1952 figure. Agricultural output can at most increase ten percent in the period, but industrial output may double.

*This article is based on a study by the Office of Research and Reports.

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